

CHAPTER ONE

The Realities of Resizing

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The most difficult decision any executive has to make is to reduce the size of the company.

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Layoffs, divestitures, and closings have become deeply woven into the fabric of contemporary organizational life. What once were infrequent and, in some cases, unheard-of occurrences in most work organizations have become regularly occurring actions. What once were managerial reactions to difficult market conditions now have become proactive tactics for attaining strategic and financial objectives. And what once were poorly managed events that eroded the psychological relationship between employer and employee have become, at least in some organizations, opportunities to define or reinforce desired corporate cultures that reflect the realities of today's business environment.

A decade ago, we wrote that transition management—the leadership and direction of major organizational events—would become a regular component of the managerial repertoire (De Meuse, Vanderheiden, & Bergmann, 1994; De Meuse & Tornow, 1990; Marks, 1994; Mirvis & Marks, 1992). At that time, merger and acquisition activity was on an upswing, major corporations were beginning to make themselves over through restructurings, spin-offs, and strategic redirections, and large corporations were doing

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something they had never done before on a large scale: involuntarily terminating employees through reductions in force and plant closings. We were right. Today, layoffs, divestitures, and closings are found in organizations of every size, in every industry, and just about every geographical location. Transition management and organizational change are so pervasive that courses on the topic are taught in business schools.

A new word, *downsizing*, was coined in the early 1990s to represent the variety of ways in which organizational leaders reduced employee ranks to achieve business objectives. Downsizing occurred through voluntary programs such as early retirement, involuntary dismissals like layoffs, and the displacement of employees through outsourcing. No matter which tactic was used, the underlying objective of downsizing was a one-time reduction in costs to contribute to the achievement of short-term financial objectives. (Vanderheiden, De Meuse, & Bergmann, 1999; Morris, Cascio, & Young, 1999).

With this book, we introduce yet another word to summarize a set of organizational transitions: *resizing*. Organizational resizing is the repositioning of employee ranks to achieve a company's strategic objectives. In many ways, organizational resizing is similar to the popularly used term *corporate downsizing*. However, unlike downsizing, resizing does not possess all the negative emotional baggage and the stereotype of corporate decline. Resizing does not necessarily suggest massive job cuts and is not fixed within the decade of the 1990s. *Resizing* is a broad-based term that more accurately reflects the organization of the twenty-first century and its goal of becoming agile, flexible, and proactive. Resizing is primarily strategic in nature (as opposed to financial) and is part of ongoing organizational transformation (as opposed to a one-time-only event). Resizing contributes to executives' intentions of cutting costs, focusing resources, and implementing strategic shifts to capitalize on the ever-changing global marketplace.

The Pervasiveness of Organizational Resizing

Layoffs, divestitures, and closings are affecting organizations of all sizes, in all industries, and across all geographical areas. Huge corporations—including Boeing, Eastman Kodak, General Motors,

and Procter & Gamble—have experienced multiple waves of resizing. So have the smallest of work organizations. Over five hundred small dot-com start-ups have announced reductions in force. While key industry sectors such as telecom and manufacturing have experienced a major displacement of employees, resizing also has occurred in the financial services, education, health care, high-technology, and retail industry sectors, among others. During the 1990s, we experienced the longest expansion in U.S. history. Yet we also experienced record numbers of organizational resizing. The companies that have downsized during the past few years reads like a Who's Who among American business (see Exhibit 1.1). Each year during the 1990s, approximately 500,000 jobs were eliminated from the American landscape. In 2001, roughly 2.5 million jobs were cut, shattering the previous record of about 700,000 during 1999 (U.S. Department of Labor, 2002).

What initially was an American phenomenon has transcended national borders. Several European organizations (including Volvo, British Airways, Vivendi, and Alcatel), as well as Asian companies, such as Fuji, Sony, Toshiba, Nissan, and Daewoo, have experienced layoffs, divestitures, and closings in recent years. This downsizing is especially significant given the labor laws, worker councils, and national cultures that traditionally have supported lifelong relationships between employers and employees. In China, for example, mores were at one time so strong that this type of organizational activity was referred to as “taking away someone’s rice bowl” (that is, the company would be removing an individual’s means of income).

Organizational resizing has become ingrained in contemporary culture. What once was regarded as a stigma has come out into the mainstream of modern life as vast numbers of people have been personally resized or known someone who has gone through a lay-off, closing, or divestiture. In many communities, well-publicized “pink slip parties” bring laid-off employees together to socialize, commiserate, and network. Psychologists are forming special therapy sessions and support groups for laid-off employees in San Francisco, Silicon Valley, New York, and other areas with high concentrations of high-tech businesses. And recruiters and job hunters talk openly and matter-of-factly about resizings rather than sidestep or downplay the event when reviewing the applicant’s career background.

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Exhibit 1.1. The ABCs of Corporate Downsizing.

- A AETNA; Agilent; Amazon.com; AOL Time Warner; Arthur Andersen; AT&T
 - B Bell South; Bethlehem Steel; Boeing; Bristol-Myers Squibb; Business Week
 - C Charles Schwab; Cisco Systems; Compaq Computer; Corning; Cummins
 - D DaimlerChrysler; Dell Computer; Delta Airlines; Disney; Dole Food; Du Pont
 - E Eastman Kodak; Eaton; Edison International; Enron; E. W. Scripps
 - F FMC; Ford
 - G Gateway; General Electric; General Motors; Gillette
 - H Hasbro; Hewlett-Packard; Hon Industries; Honeywell
 - I IBM; Intel; International Paper
 - J John Deere & Company; Johnson Controls
 - K Kmart; Knight-Ridder; Kraft
 - L Levi Strauss; Lincoln National; Lockheed Martin; Lucent Technologies
 - M Marriott; Mattel; Mellon Financial Corp.; Merrill Lynch; Monster.com; Motorola
 - N New York Times; Nextel; Nortel; Northeast Utilities; Northwest Airlines
 - O Olin; Oracle; Owens-Illinois
 - P Pennzoil-Quaker States; Pfizer; Priceline; Procter & Gamble
 - Q Qualcomm; Quantum; Qwest Communications
 - R Raytheon; Revlon, R. J. Reynolds; Rockwell Automation; Rohm & Hass
 - S Sears; Servicemaster; SGI; Sprint; Steelcase; Sun Microsystems; SuperValu
 - T 3Com; Texas Instruments; Textron
 - U United Airlines; Universal; U.S. Freightways
 - V Verizon
 - W Waste Management; WorldCom; Wyndham International
 - X Xerox
 - Y Yahoo!; Yellow Trucking
 - Z Zales Jewelry
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The Dynamics Driving Organizational Resizing

Layoffs, divestitures, and closings are occurring for several reasons. Executive motives appear to range from corporate survival to investor greed. According to John Challenger, president of the outplacement firm Challenger, Gray, and Christmas, “Shareholders rule today. They have all the power. Even if layoffs cause long-term damage, shareholders don’t care. They demand instant returns. They always can move their portfolios” (personal communication, 2001). However, a careful examination of the factors influencing resizing indicates numerous dynamics within and surrounding organizations. These dynamics are not unique to American companies.

Globalization

The marketplace for many organizations has expanded from within a region to within a nation to the entire globe. In some industries, only a few Asian, European, and North American competitors will survive consolidations to emerge as global gladiators for market share.

Globalization drives organizational resizing in two distinct ways. First, many organizations react to adverse global economic conditions by eliminating jobs and closing or divesting operations. Whereas in the past, economic downturns in one part of the world may have been relatively isolated, now they affect all regions of the world in the new global economy. Second, some organizations are proactively resizing as a consequence of their mergers, acquisitions, alliances, and joint ventures aimed at broadening their global reach. For example, two automobile manufacturers had separate design centers in North America and Europe, but in an effort to globalize operations following a combination, one was closed.

Globalization also has elevated the saliency of disparate wage rates among countries. For example, it is exceedingly difficult to manufacture computers in the United States, where the average production employee earns more than eighteen dollars an hour when that same computer can be assembled in Mexico, where the average hourly wage is around two dollars (U.S. Bureau of Labor Statistics, 2002). Alternatively, one can look to China, Taiwan,

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Korea, or Singapore, all with labor rates and employee benefit packages substantially lower than in the United States, and several other nations around the globe. The ease of transportation and communication enables this intercontinental process to be seamless to the customer. Consequently, job relocation from high-wage countries to low-wage ones is a natural outcome.

Deregulation and Denationalization

As governments continue to deregulate or denationalize industries, private entrepreneurs inevitably look for opportunities to reduce employee populations and close or sell off operations. In the United States, in deregulated industries like air transportation and broadcasting, corporate leaders have responded quickly and aggressively by combining companies, relocating operations, and reducing head counts. The airlines have consolidated into a few large carriers, and most of the nation's radio and television stations are in the hands of a few multimedia communication conglomerates.

Worldwide, deregulation and privatization are transferring the ownership and operations of huge organizations from governments to businesses. Inevitably, this means a delayering of bureaucratic structures. Layers of bureaucracy and managerial excess, built up during years of growth and paternalistic governmental oversight, are being stripped away to reduce overhead and increase organizational responsiveness. Utilities, railroads, and agribusiness are among the industries experiencing a dramatic move toward privatization.

Technological Change

Technology continues to become increasingly more sophisticated and effective in enhancing quality and efficiency in the workplace. Firms are taking advantage of new technologies, from factory automation to information storage, to reorganize work and make it more efficient. Often, though, this comes with a tremendous human price tag. The U.S. steel industry, for example, produced 100 million tons with 577,100 workers in the 1960s. Four decades later, it produces just as much tonnage with fewer than half that number of

people. Overall, manufacturing output in the United States is higher than at any other time in its history. At the same time, however, employment in manufacturing has remained flat (Siekman, 2000).

Technological advances enable greater production by fewer people, resulting in the new phenomenon of jobless growth. And the range of employees affected by technology has broadened dramatically. Historically, the positions of lower-level employees were those put at risk by robotics and other forms of automation. However, information technology today is having a tremendous impact on middle management ranks. A desktop computer using decision-support software can do the job of gathering, analyzing, and disbursing information more quickly and, arguably, with more cost-effectiveness than a middle manager. And as technology advances, the skills needed to keep pace with the hardware and software change. For employees at any rank, the shock of job displacement is compounded by the realization that no employer may want the skills they have painstakingly developed over the years.

The Bursting of the Technology Bubble

Concurrent with technological advances came a run-up in the stock prices of technology companies. The stratospheric price-earnings ratios of key technology companies and speculative promises of firms that never came close to turning a profit could not be sustained, however. The meltdown in technology stock prices also affected the broader markets. Investment capital and venture funding dried up. Employee ranks shrank concurrently with share prices. Thousands of people who had short-term hopes of stock bonuses instead found their options underwater and themselves holding pink slips.

The bursting of the technology bubble resulted in huge layoffs in technology firms and, in high-profile cases like Webvan and Pets.com, the complete closing of operations. It also forced senior executives to fixate even more on quarter-by-quarter results rather than build or sustain operations for the long run. Many firms cut employees and closed operations in hopes of short-term lifts to their stock prices.

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The Slowing Economy

Obviously, the September 11, 2001, terrorist attacks on the World Trade Towers and the Pentagon had a ripple effect throughout the American economy. However, the end of the great bull market had begun well before this event and affected all industry sectors, not just technology. The September tragedy simply pushed down business spending and consumer confidence that already were in deep trouble. Entire industries, including airlines and hospitality, high tech and telecom, suffered huge losses. Even in organizations not yet directly affected by the economic slowdown, executives took steps to cut costs by eliminating jobs, consolidating and closing operations, and divesting nonstrategic assets.

In many cases, these efforts at resizing were sound, well-thought-out moves. In many others, reductions in forces, closings, and divestitures were more symbolic than substantive. CEOs tried to send a message to Wall Street that they were taking steps to address falling revenues, lowered profit margins, and anemic stock prices—or at least they attempted to stave off the wrath of analysts who wanted action. Yet one-time-only cost reductions do little, if anything, to build sustained momentum for future revenue and income growth (Cascio, 1998; Mishra, 2001; Pfeffer, 1998). And as resizing becomes increasingly commonplace, Wall Street is becoming increasingly unimpressed with nonstrategic cost-cutting maneuvers.

Increasing Costs

Further burdening business leaders are increases in operating costs. Energy costs—including gas, oil, and electricity—skyrocketed during the first few years of the new century. The price of some precious metals rose sharply. Even the cost of milk fat, an essential ingredient in ice cream, jumped 50 percent between 2000 and 2001.

In a stable or growing economy, businesses could pass these price increases on to customers. But in a softening economy, executives instead tend to look at ways to control current costs—or curtail future investments—rather than pass on raw material price increases. Consequently, jobs are cut or hiring is frozen, operations

are consolidated or closed, and some functions are outsourced, all in an attempt to enhance short-term cost efficiencies.

Mergers and Acquisitions

Despite the weakening economy, merger mania continues in full force. Depressed stock prices make for some attractive purchases, but most merger and acquisitions activity appears to be prompted by the need to achieve growth objectives rather than by opportunities to pick up corporate bargains. Entire industries have been put into play and reconfigured as one deal prompts a spate of copy-cat mergers. A prime example is the oil industry. BP's 1999 acquisition of Amoco was a careful, strategically sound move that led other companies in the industry, including Exxon and Mobil, Chevron and Texaco, and Phillips and Tosco, to play catch-up.

Thousands of jobs are eliminated as redundant operations are consolidated. In the carefully planned and well-executed pharmaceutical merger between Pfizer and Warner-Lambert, as an example, multiple R&D centers of excellence were rationalized. And many units are divested as companies combine, either because they no longer fit into the strategic mix of the lead company or because they are seen as appeasements to get regulators to bless the deal. Sometimes enormous businesses are divested after acquisitions. Vivendi wanted Seagram's entertainment business when it acquired the company and did not hesitate to sell off its traditional core spirits and wine businesses.

The Unintended Consequences of Resizing

In principle, a resizing should enable an organization to improve its competitiveness without impairing its ability to execute its strategy. In practice, however, a resizing can exact a heavy toll on organizational effectiveness and employee well-being (De Meuse et al., 1994, 1997; Mische, 2001; Morris et al., 1999; Pfeffer, 1998; Vanderheiden et al., 1999). It can also influence customers to flee to competitors and create uncertainty on the part of vendors and suppliers (Bastien, Hostager, & Miles, 1996). Entire communities can be adversely affected when companies close plants or significantly curtail operations (Bamberger & Davidson, 1999; Leana & Feldman, 1992).

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A Wrenching Experience

A transition that involves the displacement of people is a wrenching experience for all parties, and the norm in most organizations is to get it over with as quickly and quietly as possible. Terminations are painful to execute, and no one wants to stretch out the dirty work. Even the toughest, most bottom-line-oriented executives find it difficult to make cuts. It is one thing to speak abstractly of the need to reduce costs and quite another to make decisions that affect people's lives. Intellectually, senior executives may rationalize that a reduction in force or site closing is necessary to regain or sustain profitability. Emotionally, however, they dread making the cuts. Few CEOs themselves actually let senior staff members go; instead, they frequently pass the burden on to subordinates.

Middle managers are truly that: managers caught in the middle between the conflicting agendas, perspectives, and demands of those at the top and bottom. They feel squeezed. Top-level executives are distant and remote, talking about strategy, planning, and other matters less tangible than middle managers' needs to get products out the door or service quality up amid the turmoil of transition. Meanwhile, lower-level employees are looking for concrete direction and support, but middle managers do not have the direction and support to give them.

Research shows that managers and supervisors have the most impact on making or breaking employees' reactions to a transition (Larkin & Larkin, 1996). Yet in most organizations, they are poorly prepared for their role in implementing transition activities. When an organization offers a voluntary downsizing package, for example, managers and supervisors find themselves in the awkward position of counseling employees on whether to stay or go. No one wants to tell an employee his or her services are no longer needed, even if it is the most humane thing to do when a subsequent wave of involuntary cuts looms. It is especially difficult for managers in organizations engaged in multiple waves of downsizing. The obvious low performers already have been removed, leaving good contributors who have to be shown the door.

After the cuts are made, work team leaders have to accomplish more with fewer resources. Supervisors and managers struggle to maintain productivity with fewer bodies at a time when people are emotionally distraught. Lip-service may be given to how the resiz-

ing will result in a leaner, meaner, smarter, and generally more competitive organization. Unfortunately, now no one has the time to think of smarter or better ways of doing things.

Support staff find themselves overwhelmed by the multiple demands placed on them during a resizing. For example, human resource (HR) professionals are staggered by the work load in processing terminations and scheduling outplacement services. Moreover, knowing that their own area, a non-revenue-producing staff function, is likely to be one of the hardest hit preoccupies them. In the meantime, they are burdened by the line of employees outside their door waiting for an HR shoulder to cry on.

In general, resizing threatens the self-esteem and sense of fairness of all employees. People can rationalize layoffs based on performance, as when an employee is repeatedly late to work or fails to meet production standards. However, people cannot rationalize the fact that hard-working fellow employees have lost their jobs because of an economic downturn. Resizing victims blame themselves for not seeing it coming or not doing something to protect themselves. For victims and survivors alike, a resizing eats away at the assumption of fairness in the workplace as they wonder why leadership could not stave off the dreaded event or identify some alternative course of action. Survivors see the human carnage of lost jobs and destroyed careers and wonder, "How could an organization I want to dedicate my life's work to do this to people?"

Finally, some evidence suggests that resizing effects transcend the employees themselves. The impact that job loss has on families and communities initially was reported by Leana and Feldman (1992). Several other researchers now are exploring the effect that parents' job insecurity has on such factors as children's academic performance and social development (Barling, Zacharatos, & Hepburn, 1999; Schmitt, Sacco, Ramey, Ramey, & Chan, 1999). Some families report that elementary school children may revert to thumb sucking and bed-wetting. Overall, research clearly shows that organizational resizing activities affect families and communities.

Psychological Reactions

Some executives like to believe that resizing survivors should be grateful just to have a job in tough economic times; they should be ready to roll up their sleeves and get down to work. The real

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consequences, however, are very different. Survivors of organizational transitions experience a broad range of psychological and behavioral reactions that begin with rumors of impending events, continue through the weeks and months of transition planning and implementation, and linger long after the dust settles. They have a lasting impact on employees' perceptions of the work organization and expectations for its future (De Meuse, Bergmann, & Lester, 2001). The work of rebuilding after a transition must begin with accepting that there is unintended human and organizational fallout from resizing, understanding these consequences, and acting as proactively as possible to recover from them.

Survivor Syndrome

Symptoms of the layoff survivor syndrome have been well researched and documented over the past decade (Brockner, 1989; Brockner, Wiesenfeld, & Martin, 1995; Greenhalph, 1989). Often, people feel guilty for having been spared, similar to the psychological reaction of children who lose a playmate or sibling in a fatal accident. The survivor responds to the tragedy with extreme guilt and asks, "Why couldn't it have been me?" Survivors also may become depressed at their inability to avert future layoffs or disruptions to their work routine. In the short run, they become distracted from their work responsibilities. Over the long haul, employees who have been through a resizing have considerably less confidence and trust in their employers (Buono & Bowditch, 1989; Marks, 2003; Noer, 1993).

Despite paring down the payroll, leaders of downsized companies find it difficult to realize the increases in productivity and cost savings they had hoped the layoffs would produce. As *U.S. News and World Report* noted, "The survivors of corporate downsizings are like recovering casualties of a lost war—grateful to be alive, but uncertain of what they are living for. Some have found opportunity amid the carnage of fallen colleagues, but others have become deeply distrustful and fearful that they may be next" (Boroughs, 1992, p. 50).

Loss of Confidence in Management

One of the most enduring symptoms of layoff survivor syndrome is the erosion of employee confidence in management. Several factors contribute to this attitude. First, many employees wonder why

their leaders did not take action to prevent layoffs or avoid the ugliness of a plant closing. Second, employees do not see how transitions have added any value to the workplace. Outplacement specialists Right Associates surveyed 909 firms that resized and found that 72 percent of the employees still on the job did not think the newly revamped company was a better place to work, and 70 percent felt insecure about their future in the firm. Third, there is a growing sense that management is motivated by greed rather than by concern for customers or employees.

The irony here is that layoffs, closings, and divestitures can be productive tools to enhance organizational effectiveness and profitability and, as a result, job security and quality of worklife. However, the way resizings are implemented and managed often destroys workers' regard and respect for their organizations and leaders (Marks, 2003; Noer, 1997). In one national survey, nearly three-quarters of employees whose companies were not involved in a merger or layoff during the past year reported being confident in the long-term future of their company. In contrast, only about half of employees whose firms had been involved in a merger or layoff were confident about their company's future (Wiley, 1991).

Cynicism and Distrust

A major unintended consequence of resizing has been the growing cynicism of the U.S. workforce. People do not mind enduring some pain if they can see a payoff for it, but this has not been the case in many organizational resizings. Promises that nothing will change during the transition, and of enhanced effectiveness following it, are rarely fulfilled. In many organizations, people see few benefits—for the business or for themselves—resulting from the ordeal.

Poorly managed transitions have a negative not merely a neutral effect on the mind-set of employees. Employees see how departing senior executives have their transition impact softened with the help of generous golden parachutes and how those who stay often have well-endowed employment contracts (Strauss, 2001). People have grown distrustful of their leadership and cynical of opportunities to succeed in their companies. A national study found that 43 percent of working Americans doubt the truth of what management tells them and believe that their companies, given a chance, will take advantage of them (Kanter & Mirvis, 1989).

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Decreased Morale

The Laborforce 2000 study of downsizing and restructuring found that morale dropped among surviving employees in six of every ten companies engaged in a downsizing. Interestingly, the drop in morale was the same whether companies downsized for strategic reasons or to contain or control costs (Marks, 1993). Survivors are angry, both at themselves for not seeing trouble before it arrived and at their leaders for exposing people to such stressful treatment. They hurt because the sight of coworkers being dismissed is painful, as is accepting that one's own career dreams have been derailed by downsizings and divestitures. And survivors are frustrated because their ability to get the job done is hampered by the confusion of the resized organization and because they see few signs that things are going to get better any time soon.

Reduced Loyalty

During reductions in force, employers inadvertently hurt most the employees they least wish to alienate: employees who are very loyal to the organization. Most people who join organizations need to feel that they are a part of and contributing to a larger collective. One outgrowth of people's need for group membership is that they expect and want to be treated fairly by the groups to which they belong. Research conducted by a team from Columbia University suggests that if loyal employees believe that layoffs were unfair, their loyalty drops sharply, even more so than that of survivors who are less committed at the onset (Brockner, 1989).

Dismal Outlook

Even for those who breathe a momentary sigh of relief for having retained a job, dismal signs predominate in the resized organization. Survivors feel sad about the past and anxious about the future. People miss their former mentors, coworkers, and other colleagues who may have exited in a divestiture or reduction in force. They miss their former political connections to the powerful decision makers in the organization. When they set their sights on the future, they become further dismayed. All signals point to fewer opportunities for advancement when resizings eliminate traditional career paths. People even see themselves having to work harder just to stay in the same place. Finally, there is less fun on

the job. The rhetoric of cost reduction puts a damper on the informal perks and playfulness that many employees enjoy at work.

Loss of Control

What really concerns survivors is the sense that they have lost control over their work lives. They perceive that no matter how well they do their jobs, they could be hit in the next wave of layoffs. The rapid pace of change in today's business world means that one's position, pet project, or potential for advancement could be eliminated at a moment's notice, with no way to counteract it. A middle-level manager from a consumer products company exemplified the control issue when he spoke with us during an interview a year after his company went through a series of resizings:

I used to think that if I did my job well, completed my projects on time and in fine manner, I would be able to control my fate. That's no longer true. I've seen other managers—people who clearly were good, if not excellent, performers—get the shaft. Now, my track record doesn't count for anything. I'm at the mercy of some bureaucrat at headquarters. I'm no longer the master of my own fate.

While senior executives have the most at stake during a resizing in terms of position, power, pay, and perks, they also have the most control over their situation. They anticipate, conceive, and design the layoffs, closings, and divestitures, as well as arrange for their financial security. Other employees cannot exert control over whether their workplace is being resized, and their sense of lost mastery over their fate extends well beyond the actual event.

Some people perceive that the only way they can regain control over their work situation is to walk away from the organization. A research chemist whose firm had just closed and consolidated R&D units was clear on her plans. She declared, "What is hard work going to get me here? All I have been hearing from this organization is hard work is going to help me keep my job. Well, that's not good enough for me. I was raised in a time when good work was rewarded with an occasional promotion. There was a career path. Now with these layoffs and site closings, there is nowhere to go. Why should I stay here?" Another manager, from a financial services firm, had his plan set for taking back control. He boldly revealed, "Senior management must think they have us by the balls

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right now, because the job market in our industry is poor. But I can tell you this. At the sight of the first ray of light of an upturn in the economy, I'm walking out of here and not looking back." When surviving employees see the best and brightest performers jumping ship, it reinforces negative feelings and cynical attitudes. And, importantly, it is these highly skilled and creative individuals whom an organization must hold onto to rebound effectively after the resizing.

Behavioral Reactions to Resizing

Employees who survive a resizing often liken their situation to that of a chicken with its head cut off—frantically moving about without any sense of direction or hope for survival. Or they talk about struggling to keep their heads above water. They know what they have to do, but they are weighed down by the burden of a heavy workload with competing demands. Others keep their heads in the sand like ostriches, hoping that the winds of change will blow by them.

Working Harder, Not Smarter

The workload rarely gets smaller when the workforce does. Survivors who return to work following reductions in force face the dismal prospect of being part of the 80 percent of the people who now have to do 100 percent of the work. Everyone is working harder but feeling as though they are accomplishing less. The situation is exacerbated by a likely backlog in the workload carried over from the months preceding the resizing, as people were preoccupied with rumors and gossip and distracted from doing their jobs. Inevitably, work falls through the cracks.

What about the promise of enhanced organizational effectiveness that accompanies the announcement of many organizational resizings? The reality is that no one has time to stop and think of innovative ways to approach work. Work teams or task forces may be convened to identify ways to eliminate non-value-added work. Typically, however, these groups are insufficiently prepared to overcome the group dynamics and individual power plays that can sidetrack team creativity and decision making. When these groups fail to produce enhancements to the workplace, people become more

dismayed toward their situation and cynical about the future. Worse yet, when outside consultants are brought in to recommend new ways of approaching work, employees fear the worst and assume this means more job cuts lie ahead.

Meanwhile, there are demands from all directions—superiors, peers, and subordinates—that increase the pressure on transition survivors. “Everybody here is so worried about looking good and wants their work to take top priority,” noted a staff analyst in a high-tech company. “My boss says to ask my internal customers if what they need in a week can instead be delivered in ten days. But I’m afraid to do that. It may cost me by being labeled as someone who can’t cut it around here.”

Lack of Direction

Compounding the sheer volume of work confronting people surviving resizing is a lack of direction in prioritizing which tasks to tackle first. After two regional offices of a health maintenance organization were combined as part of a cost-cutting series of closings, leadership was indecisive regarding the relative merits of aggressively pursuing increases in membership or conservatively maintaining levels of profitability. Middle managers were paralyzed by this lack of direction, waiting to see which way they should lead their work teams. The director of operations expressed this frustration: “Does senior management want us to go out and run up the membership roles, or are they interested in protecting the margin? Either one is fine by me, but someone has got to let me know which way we are going, because I do not want to build an organization that is headed one way and then get chastised because I was supposed to go the other way.”

Risk Avoidance

Why wouldn’t the operations manager and his peers just step up to the plate and make a decision on their own? The answer is that risk taking plummets following a resizing. Employees are so scared that there is a self-imposed pressure not to make waves or take risks, and just at the time when innovation is needed. Further cuts may be in the offing, and no one wants a blemish on their record that may be used against them when the next list of victims is drawn up. Instead, managers and employees go with what they

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know, relying on what has worked for them in the past. These are just the behaviors that have gotten the organization in trouble. At the very least, what may have worked in the past is unlikely to work within a new context of changed market, workplace, and social demands.

Political Behavior and Loss of Team Play

Political game playing increases sharply in organizations that have resized. One way people shore up their sense of control is to lobby for themselves. Employees spend time promoting their value to executives and managers, as well as reminding them of any outstanding favors that may be owed. They network with friends and associates from outside the organization—a distraction from getting their work done but an important protective action to take in the event of future layoffs. Coworker relations may become strained as individuals explicitly or implicitly put down their colleagues in an effort to make themselves look better in the eyes of superiors. As uncertainty grows, self-preservation becomes paramount.

Politics prevails also at the group level as work teams look out for themselves. Managers erect barriers between teams, focusing on group results rather than the big picture. In the short run, they conclude that what makes the team look good is more important than what is best for the overall organization over the long haul.

Role Ambiguity

A constant problem interfering with organizational effectiveness following resizing is role ambiguity. Survivors wonder who is responsible for what and whom to go to for which decisions. A lot of time is spent wondering how to prioritize work and how to operate in an environment in which direction is not forthcoming. Individuals reporting to new superiors fret over when to make decisions on their own and when to raise them up to leaders, as well as wondering what detail to provide when communicating. These normal aspects of the learning curve of any new work relationship become sensitive issues within the context of resizing. It is especially frustrating to achievement-oriented people who want to start building a good track record in the resized organization. They hope to make a positive first impression on new superiors, peers, and subordinates, yet they do not always know whom to go to or work with to get the job done right and on time.

Withdrawal

According to Herman Maynard, a former senior manager at Dupont who took early retirement in a reduction in force, these psychological and behavior reactions to resizing have prompted many employees “to withdraw their personal and professional power from their jobs, while making it look like they are still working” (Reynolds, 1992). People’s bodies, but not their hearts and souls, show up to work. As executives exhort their employees to boost productivity, improve quality, and be more globally competitive, many workers are responding with a shrug. This psychological turnover is more costly for the organization than actual turnover. Often, these employees are riding out the organizational storm until the next early retirement enticement or enhanced severance pay package is offered. In the meantime, they continue to receive pay and benefits and perform poorly.

Stress and Organizational Resizing

A moderate amount of stress enhances performance, but high levels of stress have a detrimental effect on work productivity and quality. During and after a resizing, people become distracted from doing their jobs. They huddle around coffee makers and water coolers, exchanging the latest rumors. Some employees are at the copying and fax machines, preparing and sending out their résumés. High levels of stress interfere with cognitive processes in intellectual tasks and with the quality of work produced on manual tasks. People respond in robot-like ways instead of thinking creatively or strategically about the situation at hand. One vice president of quality control at an aerospace firm involved in repeated waves of resizing described it as “like waiting for an earthquake—you do not know when the next shocks will be felt, but you know they will be coming. And you do not know if this will be the big one or not.”

Sources of Stress in a Resizing

Resizing creates stress for employees in a variety of ways. The loss of someone or something to which people are attached is painful, and it necessitates a period of mourning or depression while they make adjustments in their lives (Kübler-Ross, 1969). The potential

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for loss abounds in a resizing: people may lose their jobs, coworkers, title, status, or perks. They also may lose less tangible aspects of their work situation, like the opportunity to realize their career aspirations, achievement of their ego ideal, their sense of personal competence, and their identification with what had been regarded as a paternalistic and caring employer.

A key to understanding the stress of resizing is to realize that the threat of loss is as debilitating as actual loss. Whether the threat is to a person's self-esteem or physical person, the resulting stress response is the same. Job insecurity is experienced like job loss. Laying awake at night worrying about losing one's job is as debilitating as losing it. In fact, survivors in companies experiencing multiple waves of resizing report being envious of the victims who lost their jobs; at least they can get on with their lives. Resizing survivors also worry about not fitting into a new company direction or culture, lament about having to prove their worth to new superiors, and agonize over what might happen to their career, all of which produce stress. Importantly, stress is based on subjective perceptions, not objective reality. It matters not what senior leadership intends to do or thinks are opportunities for the future, but what people fear leaders may do and how *they* perceive opportunities in the resized organization.

Next, the frustration experienced when anyone or anything even potentially prevents a person from meeting basic needs or getting what they want is another source of stress. People incur added stress when they feel helpless to do anything about their situation. This is why long hours of work during and following an organizational transition do not necessarily create higher levels of stress. In contrast, a high degree of pressure coupled with a perceived lack of control will cause high anxiety. When people feel their control has been reduced, they wrongly assume that they have lost all control. Frustration is at its worst when a person has little perceived discretion to negotiate deadlines and manage workloads.

Finally, the critical mass of uncertainty in a resizing is a source of stress. The announcement of a reduction in force, closing, or divestiture usually creates more questions than answers. People do not know what to expect, and in today's environment, they generally anticipate the worst. Some may have new duties to master, a new superior and peers to adjust to, and new policies and proce-

dures that alter established—and comfortable—ways of working. For others, there is the more palpable uncertainty about job security and company identity.

Cumulative Effects of Stress

The stress of an event is determined by the amount of change it implies, not necessarily whether the change will be beneficial or detrimental. Marriages and births can be as stressful as divorces and deaths (Holmes & Rahe, 1968). Each event disrupts the status quo, entangles family and friends, and requires that people adapt to new circumstances. Many times, employees perceive resizings as offering both costs and benefits. A reduction in force may be painful but may also lay the foundation for organizational renewal. A divestiture may disrupt current work patterns but also send a business unit to a corporate parent with a better strategic fit and deeper pockets for long-term investment. Thus, even positive changes induce stress.

This point is important to consider because the effects of stress are cumulative. A series of small, seemingly innocuous changes can add up to a large and significant change in a person's eyes. A situation becomes stress inducing when it taxes a person's ability to cope effectively. Unsure of why change is occurring and how it may affect them—and unable to voice their concerns or control their fate—employees' accustomed ways of coping with stress are exaggerated. It is commonplace in organizations engaged in a transition to see people handle stress through the fight-or-flight reaction. Interviews conducted with employees during or soon after resizings are laced with seething indictments of managerial ineptness and examples of strained working relationships across groups. By contrast, lethargy, detachment, and other signs of withdrawal can be found among white-collar professionals whose work keeps them out of political power circuits.

Fight-or-flight reactions should be expected during and after a resizing, but they can be costly. Angry managers cannot work for the common good because they are itching for a fight and will poison the attitudes of their subordinates. Professionals who remain in body but not spirit after the resizing cannot be counted on to contribute fully to fact finding or decision making, but they will surely gripe openly about the resulting decisions.

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Stress also takes a toll on well-being. Increased drug and alcohol abuse is common among workers surviving a transition. In one company we were consulting for during a resizing, Valium was the number one prescription drug purchased by employees each of the six months following initial layoffs. Frequently, calls to employee assistance programs skyrocket, and it is common to hear reports of a variety of psychosomatic reactions to stress (for example, trouble falling asleep at night, headaches and back pain, smoking again after having kicked the habit, and increased tension and conflict at home and on the job).

Rates of illness and absenteeism swell at workplaces in transition, and there are plenty of numbers to document the human and financial cost of resizing. At a Fortune 500 firm we studied, incidents of high blood pressure among employees rose from 11 percent in the year preceding a resizing to 22 percent in the year following its announcement. In a study conducted by Northwestern National Life Insurance, 65 percent of employees surveyed reported that they suffered from exhaustion, insomnia, or other stress-related problems; one-third revealed they were close to burnout. Stress saps between \$100 and \$300 billion annually from the U.S. economy in the form of lost workdays and health care costs related to illnesses like exhaustion, depression, and heart attacks ("Economy Creates More Stress," 1992).

The Saturation Effect

Organizations may operate within a context of ongoing change, continuous improvement, and radical transformation, but people can handle only so much disruption to their accustomed norms (De Meuse & McDaris, 1994). We may be in the Internet age with tremendous technological advances, but the human machine has a breaking point. Over time, people's threshold for dealing with stress, uncertainty, and disorientation is met. Their ability to cope with ongoing change is impaired, resulting in detrimental attitudes, maladaptive behaviors, disappointing performances, and the many other unintended consequences of resizing (Pfeffer, 1998).

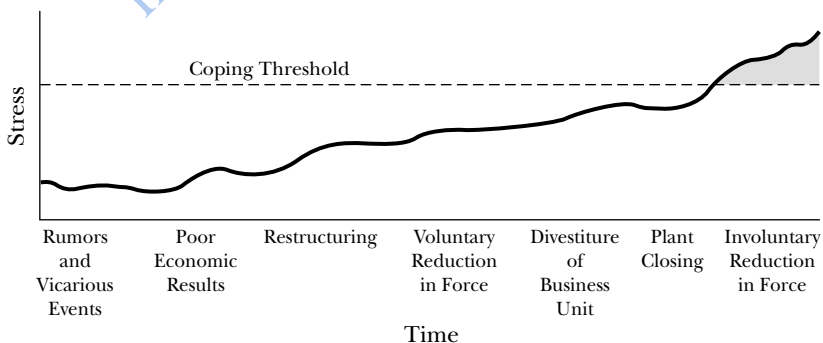
A resizing rarely occurs in isolation. Rather, it is part of an ongoing series of real and perceived events that contribute to the cumulative stress experience. Consider a Silicon Valley high-tech

firm's history over a two-year period. After rumors of impending change and watching events occurring at other companies in their industry, the firm attempted minor belt-tightening measures to deal with the softening economy and poor financial results. Then the company made a more radical move with a major restructuring of operating units and, for the first time in its history, offered employees a voluntary early retirement program. These activities were followed by the divestiture of a business unit and the consolidation of manufacturing operations, forcing the closing of a plant. With financial results still slumping, the company resorted to an involuntary reduction in force.

As characterized in Figure 1.1, each of these events resulted in the experience of cumulative stress. By the time the involuntary reduction in force was announced, many employees had become numbed by the dizzying course of events. The workforce suffered an intellectual and emotional paralysis brought on by their saturated coping capacity. They were psychologically worn out, unable to take on the responsibilities involved in meeting new challenges, and unwilling to give a good fight.

Shortly after the involuntary reduction in force, the company's leadership team saw a genuine potential for financial growth, organizational success, and individual reward. These executives anticipated that after a long and difficult struggle, victory in an important battle was awaiting at the top of the next hill. They saw

Figure 1.1. The Saturation Effect.



Source: Adapted from Marks (1994, p. 77).

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the goal and confidently rallied their troops on the mission at hand. The cry came to charge up the hill and take the prize. However, the troops were neither ready nor willing to charge up the hill. Rather than focus on the opportunity ahead of them, the employees were unable to let go of the pain behind them. Their vision of the target was obscured by the emotional residue of anger, distrust, and depression built up over years of false promises and unmet expectations. Their self-esteem battered and their faith in the organization broken, the troops lacked confidence that they could take the hill. Most significant, they did not see how any personal gain would result from taking the hill. Instead, they fixated on memories of their fallen comrades—the casualties of layoffs and closings and the “walking wounded” whose careers were sidetracked.

Adaptation and Organizational Resizing

To understand why living through a reduction in force, closing, or divestiture—as either a victim or a survivor—can be so debilitating to everyone, it is important to consider the process of psychological adaptation to change and transition. A change can be of two types: continuous change and transformational change. The distinction is based on the extent to which the change requires psychological adaptation.

Two Levels of Change

Continuous change is a path to a known state, with orderly, incremental, and continuous steps. Moving a meeting from a 10:30 A.M. to a 10:00 A.M. starting time is an example of a continuous change. It may cause some disruption and require some adaptation; attendees may have to leave other meetings earlier or reschedule conference calls. Nevertheless, the discrete nature of continuous change lets people know exactly what to expect and allows them to get on with their lives.

A *transformational change*, by comparison, is a path to an unknown state—something that involves many simultaneous and interactive changes. Adopting new ways of thinking, organizing, or conducting activities are examples of this type of deeper, more meaningful, and lasting change. Transformational change poses a

break from the past. It involves death and rebirth; existing practices and routines must be abandoned and new ones discovered and developed. A corporate cultural change—perhaps getting people to stop avoiding risk and start embracing the idea of learning from mistakes—is an example of a transformational change. A resizing that prompts a reassessment of deep-seeded perceptions and expectations (for example, “My employer respects and fairly treats all people” or “Hard work is rewarded here with job security”) also is a transformational change.

Letting Go of the Old and Accepting the New

For transformational change to occur, a person literally has to let go of the old before accepting the new. People have to abandon old attitudes or behaviors before adopting new ones (Bridges, 1980; Lewin, 1947). This helps explain why transformational change is a much more difficult psychological process than is continuous change. Perhaps the classic example of a transformational change is adapting to the death of a loved one. People who experience the loss of a family member, dear friend, or important colleague do not wake up the next day and get on with their lives. They grieve the loss of their loved one and struggle with accepting new realities. Some people take weeks to go through this natural and normal process, others take months, and still others take years. Some individuals never reach the stage of acceptance. Unlike a continuous change, in which they know exactly what to expect, mourners encounter tremendous uncertainty and insecurity regarding their future. How will they go on living without their loved one? Who will they turn to for support? What will they do when they need assistance normally provided by the deceased? All of this is much more trying on a person’s well-being than simply getting to a meeting half an hour earlier.

Ironically, CEOs who resize their companies have had time to let go of the old before accepting the new. Consider the case of the divestiture of a business unit; it takes months to plan a deal, search and select a buyer, and gain government approval for the sale. During this time, executives can come to terms with the fact that the old is being abandoned (“I will no longer be running the largest company in our industry” or “The company I founded in my

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garage will never abandon its good performers”) and contend with new realities (“I am on the path to getting our firm back on sound financial footing” or “Our employees will no longer be weighed down by a money-losing division”).

Most individuals, business executives among them, ignore or deny the discontinuous nature of transformational change. That is, they ignore or deny the need to let go of the old before accepting the new. As organizational consultant William Bridges puts it, beginnings start with endings. You do not start the new until you end the old. This takes time, effort, and patience. Bridges (1980) highlights three distinct stages of this transformational process: (1) letting go of the old, (2) dealing with the neutral zone, and (3) accepting the new.

During the first stage, *letting go*, the individual comes to see that the status quo no longer is appropriate for achieving what he or she desires. For example, a person in the midst of an involuntary reduction in force would have to abandon attitudes such as “this is a secure place to work.” The second stage, the *neutral zone*, is an ambiguous place in which the old is over but the new has yet to be achieved. That is, you are no longer what you were but not yet what you want to become. The employee will have to take some time to learn by trial and error what behaviors get rewarded in the changing organization. It is truly a difficult period. Many of our clients dub this the “twilight zone”: it is dark, scary, and unclear as to what lies ahead. Finally, a new status quo emerges during the third stage of *accepting the new*. People who make it to this stage realize deep, meaningful, and lasting change. The employee not only accepts new attitudes about how tenable job security is in today’s work environment, but also adopts behavioral changes such as networking with recruiters from other firms on a regular basis. Employees grow more comfortable with the new reality; externally they are more at ease, and internally they modify their self-image and develop a new sense of self-worth.

Once employees figure out and accept new realities, they make sense out of their new world and grow more comfortable with it. Obviously, adapting to transformational change is much more psychologically taxing and is a much longer process than is adapting to continuous change. Even when change is for the better, people have to cope with uncertainty and the loss of familiar methods and

routines. Transformational change implies the loss of the status quo, and that loss must be dealt with before people can fully move on in their work lives.

Unintended Business Consequences of Resizing

The costs of layoffs, closings, and divestitures have been measured in financial as well as human terms. The Laborforce 2000 study of downsizing and restructuring found that most companies surveyed experienced undesirable business consequences. Many companies were not prepared to handle the work that remained after a reduction in force and underestimated the costs required to cover tasks that had been performed by former employees. Some 41 percent of the companies that resized reported a greater need to retrain remaining workers. This finding implies that costs were experienced as a result of taking people off their regular jobs and training them to do additional jobs. One-third of the companies increased the use of temporary workers and consultants, often at a cost higher than the expense of previous employees; a similar number increased the use of overtime. One in every four firms contracted out an entire function (Marks, 1993).

In addition, health care costs incurred by organizations rise for both victims and survivors of resizings. It is easy to see how health care costs can increase for transition casualties. The psychological trauma of losing one's position triggers psychosomatic ailments. Moreover, early retirees have more time on their hands and, as a result, more time to visit a health care provider and ring up expenses. Not so obvious—but equally costly—are increased health care costs for the survivors, who also are subjected to the psychosomatic effects of intense stress on the job. A study of Boeing employees found that individuals who experienced a high degree of emotional stress on the job were more than twice as likely to file back injury claims than other employees (Gaines, 1993). Working harder to cover the tasks of others also results in a higher accident rate. One study of 177 companies found that although the average workforce was cut by only 13 percent over a fifteen-month period, fully one-third of the firms reported an increase in workers' compensation claims. One in five companies said their workers' compensation costs increased between 50 and 100 percent ("A Study of Worker," 1992).

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In yet another study, a team of English researchers investigated the physical and emotional health of 764 employees whose organizations were downsizing. They found that employees in work groups experiencing job cuts were more than twice as likely to take sick leave as employees in a cohort work group (Kivimaki, Vahtera, Pentti, & Ferrie, 2000). If survivors perceive there may be another wave of layoffs, they likely will get the annual physical or dental work they have been putting off for the past several years.

As for the impact of resizing on productivity, an American Management Association study found that companies that had resized were as likely to report a decline in productivity as an increase. Fewer than half of the resized firms increased profits after the cuts were made, and one-quarter of them reported a decline in operating profits. In testimony before the Joint Economic Committee of Congress, the study's director concluded, "The after-effects of downsizing are problematic at best and raise the question as to whether the cure is worse than the disease" (Lesly & Light, 1992).

There is a more subtle unintended business consequence of resizing. Recent authors contend that such activities disrupt or damage an organization's ability to learn and adapt to the changing environment because the informal communication networks are adversely affected (Fisher & White, 2000; Lei & Hitt, 1995). Obviously, there is a loss of corporate memory and organizational heritage as long-term employees are terminated. Unless they are carefully managed, many of the more skilled and valuable employees will choose to leave. Consequently, the overall knowledge base in an organization unwittingly can be lowered.

No matter what the economic justification, an organization that chooses to resize as opposed to taking other steps (such as shorter workweeks, forced use of vacation times, or reductions in executive compensation) suffers the stigma of being perceived as a firm that is willing to cast its people aside in the search for profits. There is no doubt that prospective future employees regard a firm like Hewlett-Packard, which historically has been regarded as one of the best places to work in the high-technology industry, less favorably after it engages in involuntary reductions in force than before ever considering such an action. Moreover, there is no doubt that surviving employees at other plants and offices shudder, feeling less secure and less satisfied with their employers when

General Motors announces plant closings. And there is no doubt that future employees who will be acquired by Vivendi as the dynamic firm continues to grow will recall how the French company divested thousands of employees as it picked through acquired Seagrams, retaining the entertainment holdings while casting aside the core spirits and wine business. Ironically, it was the Spirits and Wine Division that generated profits enabling Seagrams to acquire its entertainment units.

The unintended impact of resizing spreads beyond employee ranks and into the perceptions and behaviors of customers as well (Bastien et al., 1996). Customers fret when they hear that a company with which they are doing business is about to lay off employees, close an operation, or sell a unit. They know that employees will be distracted from work, productivity will plummet, and quality will suffer. In fact, many manufacturing firms have gotten to the point where they automatically line up secondary sources when they learn a supplier is anticipating or engaging in a resizing. And when customers have had prior experiences with resizing firms—whether they are large industrial firms receiving raw materials of poor quality or individual consumers fed up with waiting in long lines at a financial institution—they will take their business elsewhere.

Resizing often is a sound and sensible strategy. We are not debating or questioning that point. Rather, our intent is to examine the various ways in which resizing has a direct and indirect impact on organizations and their stakeholders. Our goal is to identify the methods that can be used to minimize the unintended consequences while maximizing the opportunities to use resizing as a stimulus to build a new and better organization for the long haul.

The Healthy Side of Organizational Resizing

Certainly, organizations need to right-size by eliminating unnecessary work, shedding underperforming or nonessential units, and responding to economic, legal, technological, regulatory, and consumer changes. If organizations did not change, they would not remain competitive. Organizational leaders, however, must come to terms with the fact that the way in which they resize their operations affects employee motivation, team performance, and organizational effectiveness.

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Resizing does not imply that organizations are malevolent in their actions. In many cases, layoffs, closings, and divestitures are prudent business moves that enhance competitiveness and survivability in the constantly changing business environment. The elimination of jobs at CNN following the AOL Time Warner merger, United Airlines' closing of money-losing stations as firms slashed travel budgets in 2001, and Vivendi's divestiture of a liquor business that was outside its managerial expertise are the kinds of steps that have to be taken to increase the likelihood that the firms, and their many remaining employees, will endure and prosper over the long term.

Resizing can be beneficial for organizations and their people. Companies wallowing in red ink are wise to eliminate a portion—be it 5, 10, or even 20 percent—of the workforce to strengthen the survivability of the vast majority of employees. A serious assessment of workforce apportionment and strategic business mix is an integral component of the organizational introspection needed to rebalance and reposition a firm and its resources to take better advantage of emerging market trends and technological changes.

Transitions also can spark organizational regeneration. A CEO or business unit leader with the right mix of visionary and charismatic leadership skills can rally employees around the notion that the transition is not only a necessary response to business realities, but an opportunity to improve how work is approached and conducted in the organization. Resizing holds the potential to unfreeze the organization and its people, providing a rare chance to change corporate culture dramatically and reinforce a new way of doing things. A middle manager or supervisor can use the unfrozen state as an opportunity to strengthen teamwork, increase effectiveness, and identify and correct impediments to productivity in his or her work group.

Individuals can experience a personal form of renewal as a result of company resizing. Although many employees remain mired in maladaptive responses to the stress and uncertainty of a downsizing or divestiture, others come to recognize that in crisis there is opportunity (Bardwick, 1995). One senior executive who had lost his job in a major organizational restructuring revealed, "When shrubs are transplanted, there is new growth and new life. I know, because it happened to me." Searching out ways to gain from the

transition, enlightened employees share three key characteristics. First, they feel in control of things that matter to them. They recognize they cannot manage what is beyond their control and do not even try; instead, they assess the situation and act in the areas they can influence. Second, they feel involved in what they are doing. They see themselves as architects of change rather than as victims of it. Third, they seek challenges, take risks, and look on work with a fresh perspective. These employees recognize that the rules of the game have changed, that there is no business as usual. They see the company's transition as an opportunity to learn new skills, test their ability to cope with stress and uncertainty, and find creative ways to meet work requirements. Savvy employees also will view the transition as an opportunity to reposition their careers or take advantage of new jobs that are created. Organizational resizing enables employees to grasp control of their careers and work lives once again (Noer, 1997).

Unfortunately, using transition as an opportunity for personal growth, team development, or organizational renewal is very much the exception rather than the rule. Reports of layoffs or closings rarely describe productive, regenerating, or even rebalancing outcomes. In contrast, they depict reductions in force, closings, and divestitures as painful, wrenching, and bloody. Worse yet, many resizing fail to achieve desired results, despite the pain that the organizations and their people are put through.

Why Does It Matter How Companies Resize: Why This Book?

Despite the frequency with which they fail to achieve desired financial or strategic objectives and produce unintended consequences, layoffs, closings, and divestitures are here to stay in the managerial repertoire. Chief executive officers, business unit leaders, and other senior executives are regularly and readily going to resize as a step toward achieving their desired organizational visions. As a recent *Fortune* magazine article put it, "Letting employees go in a humane fashion isn't just about finding a way for executives to sleep at night. Bad downsizing, which management experts argue is the norm, is bad business" (Levering & Moskowitz, 2002, p. 61). The purpose of this book, then, is to help executives

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and their staffs prepare for, implement, and recover from organizational resizings. Our intent is to combine the science of resizing—the insight gained from organizational behavior research—and the practice of resizing—the war stories and lessons learned from practical applications of layoffs, closings, and divestitures—to identify better ways to manage these events.

Accumulating quantitative and qualitative research, as well as case study insights, into resizing is no easy task. The very nature of resizing runs against the grain of conducting sound scholarly research and applying empirically based, conceptually sound methods. A number of varied dynamics account for the difficulty of studying resizing. First, despite the regularity of layoffs and closings, there remains a stigma associated with these events. Executives do not like to boast about their reductions in force or their failed operations and are hesitant to invite in research teams. Second, there is a self-imposed urgency to get on with things. “Get the pain over quickly,” say corporate leaders, “rather than let it linger.” This approach frequently translates into poor planning and incomplete implementation by practitioners. Third, most layoffs, closings, and divestitures start as highly secretive events. Legal and competitive limitations on communication thwart research opportunities and the application of sound transition management practices.

Yet the stakes are high, and executives, HR professionals, team leaders, consultants, and others can and must do a better job of managing both the victims and survivors of resizing. All the parties involved can benefit from more sophisticated and effective methods for managing resizing efforts. While we can make a humanistic case for why an event that is so disruptive to people’s well-being, physical and mental health, and sense of fair play should be carefully managed and executed, the real reason for managing resizings well is to enhance bottom-line business results. How leaders lay people off, close operations, and divest business units has an impact on business results in several key ways:

- *Sending messages to surviving employees.* If surviving employees see that victims were treated respectfully (that is, given adequate notice, provided a safety net of severance pay and extended benefits, and assisted with finding new positions), they are less likely to

be distracted from doing their work by worrying about what the future might bring. More than this, if surviving employees perceive that the resizing has occurred for valid reasons and has been well managed, they are less likely to lower their views of their employer. Moreover, organizational productivity is less likely to be adversely affected.

- *Reinforcing or changing a reputation to potential new employees.* Despite a slowdown in the economy, it remains a seller's market on the job front. Excellent performers always are in great demand. One of the ironies of resizing is that nonrevenue producers like corporate training specialists are among the first to go in layoffs. This leaves a workforce with little formal training and adds to the high value of recruits who can enter a workplace and hit the ground running. To be as attractive as possible to potential new employees, organizations will need, at the very least, to minimize the unintended costs of mismanaging resizings and, more positively, to demonstrate that the resizing is part of an overall plan to put or keep the organization on the road toward achieving its desired results.

- *Reducing the likelihood of future lawsuits.* Most employers by now are sensitive to the conditions of advance notification outlined in the Worker Adjustment and Retraining Notification Act. The act took effect in 1988 and has been widely publicized since then. A less familiar legalistic concern is compliance with the Age Discrimination in Employment Act of 1967. This act protects the rights of employees age forty and over. In an effort to maximize the reduction of salary and benefits, senior employees frequently are designated for layoff. When employees perceive that resizing attempts are being managed poorly, it can lead to management distrust, cynicism, and fear. Not only do these conditions cause immediate performance problems, they create a situation ripe for future lawsuits.

- *Creating an opportunity to use the "pain" as a springboard for "gain."* On an individual level, successful psychological adaptation to resizing implies letting go of the old, dealing with the neutral zone, and then accepting the new. On an organizational level, resizing presents the opportunity for renewal by abandoning outmoded perceptions and practices, contending with the trial-and-error learning required to establish new mental models and practices, and settling in on enhanced ways of doing things and

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expectations consistent with new organizational realities. Resizing provides both substantive and symbolic benefits to the organization. It locks in new and better ways of getting the job accomplished, and it sends a message to employees that there is opportunity and hope in the post-resizing organization.

- *Minimizing the impact on customers and communities.* Resizings have the potential to disrupt life outside the organization as well as within it. The sensitivity that organizations display toward customers and communities in planning and implementing resizing has the potential to minimize the loss of key customers and tighten the relationship with existing ones. Similarly, it has the potential to aid communities and their members during a transition that can have a significant and long-lasting impact on a region's economic health.

Some organizations are taking creative steps to manage resizings in a manner that is consistent with their identities of what it is to be a responsible employer. One particularly innovative case is Endwave, a Silicon Valley company that designs components for broadband wireless systems. Hit hard by the softness that plagued the telecom industry, Endwave conducted a voluntary reduction in force as part of its program to consolidate and transfer manufacturing operations from the Silicon Valley to a less expensive area in early 2001. With key customers like Nortel and Nokia continuing to experience weak demand, Endwave announced its first involuntary reduction in force in July 2001. It took a number of specific steps to minimize the pain of the event, as well as to maximize the gain. Among other activities, it engaged us to conduct a "delivering the bad news" training program to prepare managers and supervisors for the difficult work of alerting good performers, who had stayed through the first wave of voluntary cuts, that they were being let go. More than just a rehearsal for delivering the news, the training program became an opportunity to educate Endwave managers on the psychology of adaptation and transition. It became a forum for managers to express their concerns and to offer support for one another.

Endwave also used the reduction in force as an opportunity to make a positive statement about its culture, its commitment to all employees, and its confidence in its future. In addition to the typ-

ical components of severance pay, extension of benefits, and outplacement assistance, Endwave offered laid-off employees stock option grants. As Julie Biagini, Endwave's chief financial officer, stated, "Our company got as far as we did based on the hard work of many people, including those who were asked to leave the company involuntarily in the reduction in force. We believe this company will come back and achieve the operating results and stock share price it is capable of. We want the people who helped start us on this path to share in our success when we achieve it. The stock options are a way for former employees to participate in our renewal whether they come back to work for us in the future or not."

Similarly when the Charles Schwab Corporation announced a 13 percent reduction in force in March 2001, the company offered to pay a \$7,500 bonus to any affected employee rehired within eighteen months. In an effort to keep those employees available, Schwab also created a \$10 million educational fund, which will pay up to \$20,000 in tuition over two years to affected workers. The intent is clear. Charles Schwab wanted to ease the pain of the people who were leaving so when things turned around, those employees would feel favorable about returning. These efforts by Endwave and Schwab demonstrate the essence of the science and practice of resizing: minimizing the pain of an ever increasing event in organizational life while maximizing the gain by using the resizing to enhance all stakeholders' views of the organization and its leadership.

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